

IBA Japan Annual General Meeting 2019

The FSA to Raise Awareness of Evolving Issues

Toshihide Endo

25 November, 2019

The Financial Services Agency (FSA)
Government of Japan





- 1. Introduction**
2. Evolution of FinTech
3. SDGs Finance
4. Market Fragmentation
5. Reforming Agenda for the FSA
6. Conclusion



- Uncertainty and instability influence international financial industry
- Our ambition
 - Keep on providing the updated platform for market efficiency with integrity
- Unique position of the FSA
 - The integrated single financial regulator
 - Law drafting function



- The FSA is forming our approach to answer the following questions.
 - Will the developments of Block-chain techniques be introduced with sound multi-stakeholder governance?
 - Will the recent developments in SDGs investments be able to bring about the more efficient market?
 - Is there a way for more consistent and efficient rules and supervision for international financial players?
 - What should the FSA do to fit ourselves for the future?



1. Introduction
- 2. Evolution of FinTech**
3. SDGs Finance
4. Market Fragmentation
5. Reforming Agenda for the FSA
6. Conclusion

■ New Initiatives by the JFSA in Digitalisation

- Data strategy
- Innovation support
- Function-based, cross-sectoral financial regulations
- Digitalization of financial regulation and infrastructure
- Global issues

G20 **OSAKA** LEADERS' DECLARATION -excerpt

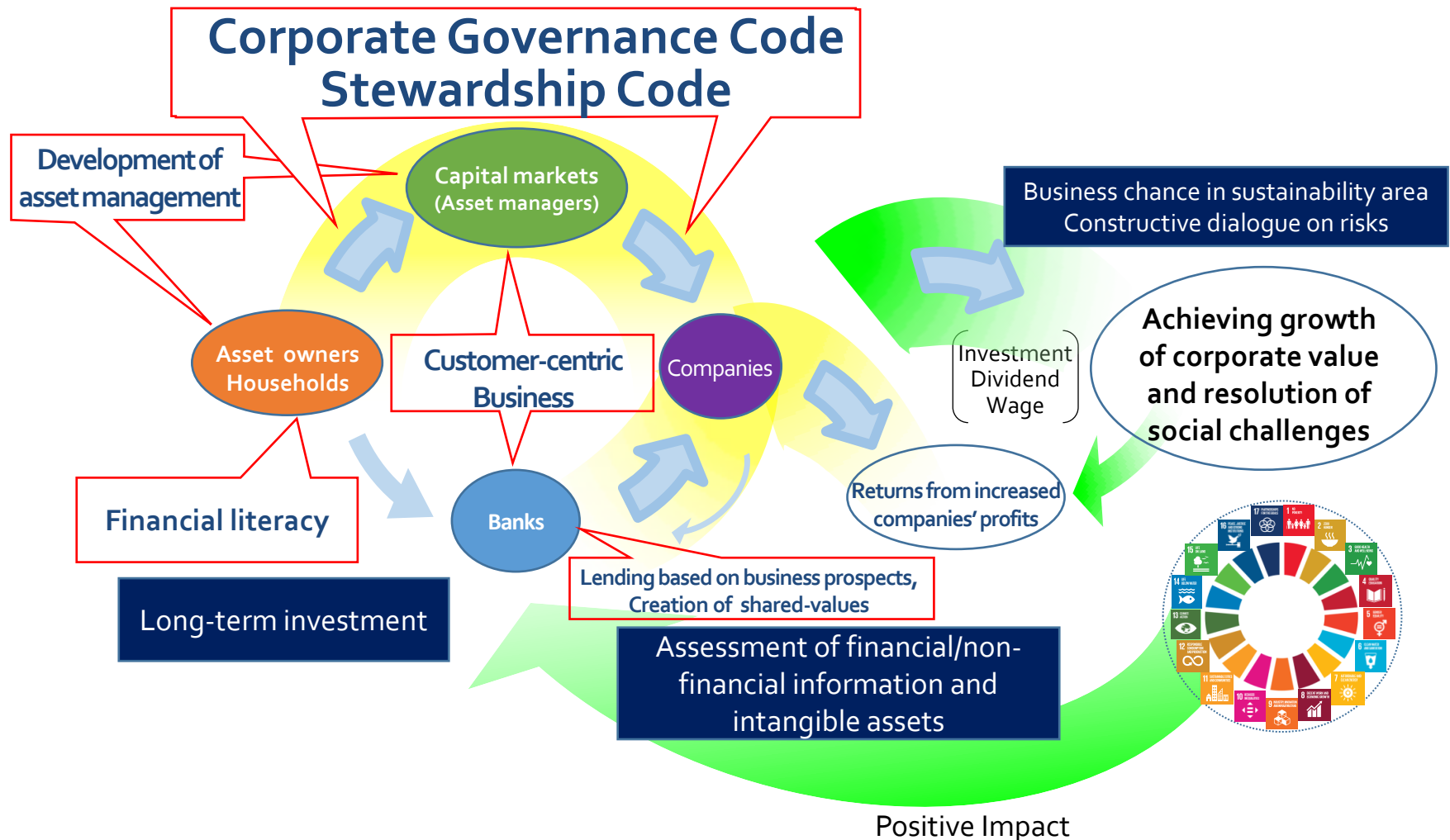
17. Technological innovations can deliver significant benefits to the financial system and the broader economy. While **crypto-assets do not pose a threat to global financial stability at this point**, we are **closely monitoring developments and remain vigilant to existing and emerging risks**. We welcome on-going work by the Financial Stability Board (FSB) and other standard setting bodies and ask them to advise on additional multilateral responses as needed. We reaffirm our commitment to applying the recently amended FATF Standards to virtual assets and related providers for anti-money laundering and countering the financing of terrorism. We welcome the adoption of the Financial Action Task Force (FATF) Interpretive Note and Guidance. **We also welcome the FSB's work on the possible implications of decentralized financial technologies and how regulators can engage other stakeholders.** We also continue to step up efforts to enhance cyber resilience.



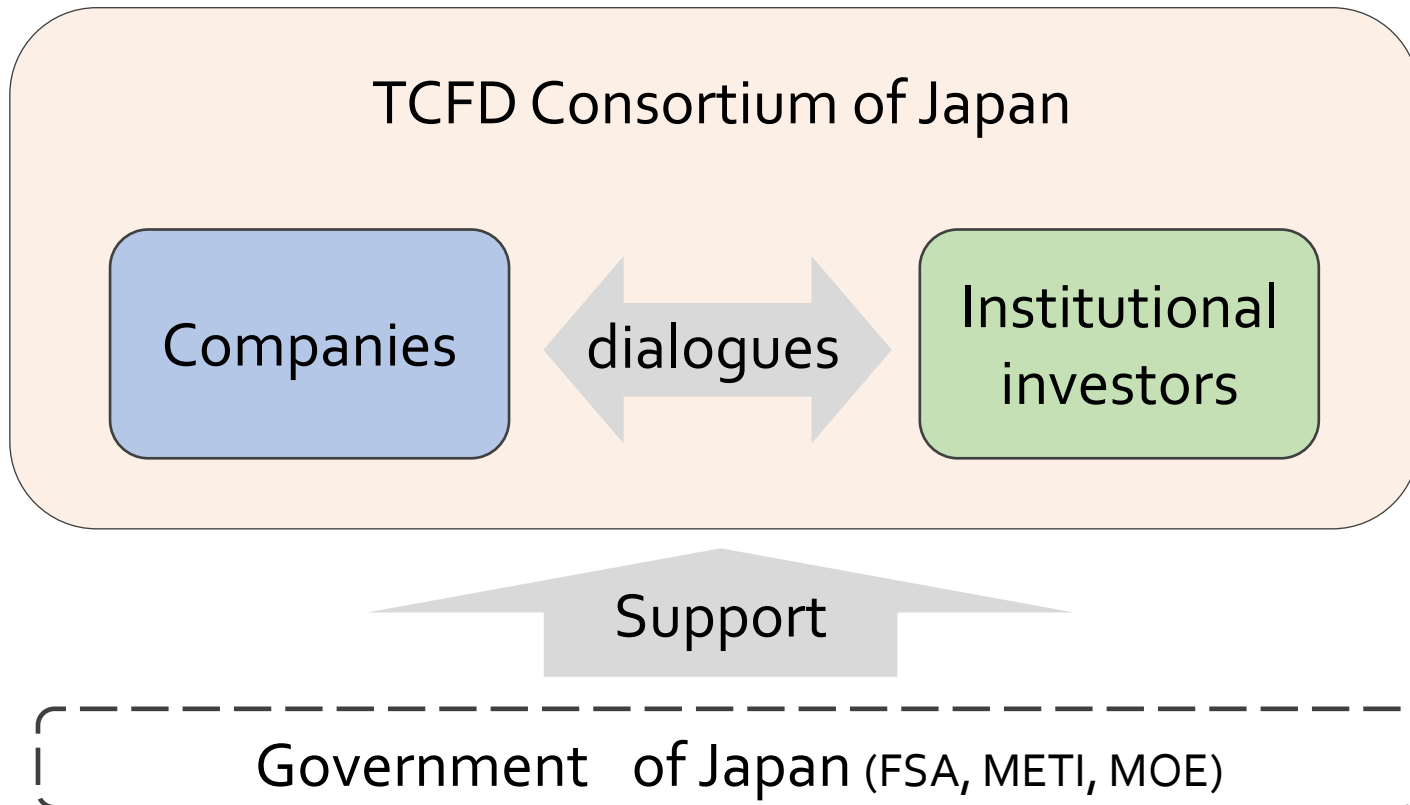
1. Introduction
2. Evolution of FinTech
- 3. SDGs Finance**
4. Market Fragmentation
5. Reforming Agenda for the FSA
6. Conclusion

SDGs Finance -1

The SDGs' vision is consistent with the JFSA's mission; to contribute to the national welfare by promoting sustainable growth of the national economy and wealth.



The TCFD Consortium of Japan was established as a private-sector led initiative with backing from the FSA, the METI, and the MOE. The consortium is a platform to facilitate climate-related financial disclosures and constructive dialogues between institutional investors and companies.





1. Introduction
2. Evolution of FinTech
3. SDGs Finance
- 4. Market Fragmentation**
5. Reforming Agenda for the FSA
6. Conclusion

Market Fragmentation -1

Reports on market fragmentation published by the FSB and IOSCO



FSB Report on Market Fragmentation

Available as: [PDF](#)

4 June 2019

This report, which was delivered to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka on 8-9 June, sets out the conclusions from the FSB's work on market fragmentation and identifies several areas for further work to address it.

The report looks at some examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation. It discusses potential trade-offs that authorities have considered between the benefits of increased cross-border activity and a need to tailor domestic regulatory frameworks to local conditions and mandates. The areas the report examines are the trading and clearing of over-the-counter (OTC) derivatives across borders; banks' cross-border management of capital and liquidity; and the sharing of data and other information internationally.

The report lays out approaches and mechanisms that may enhance the effectiveness and efficiency of international cooperation, and help to mitigate any negative effects of market fragmentation on financial stability.

On this basis, the report identifies several areas for further work to address market fragmentation. These focus on facilitating further analysis and discussion of approaches and mechanisms for more efficient and effective cross-border cooperation amongst authorities. Such areas for further work include: exploring ways to, where justified, enhance the clarity of deference processes in derivatives markets; strengthening the understanding of approaches by supervisory and resolution authorities towards pre-positioning of capital and liquidity by international banks; considering ways to enhance supervisory communication and information sharing, including approaches and mechanisms to avoid future fragmentation; and considering whether there is evidence of market fragmentation with observed consequences for financial stability as part of the FSB's ongoing evaluation of the effects of too-big-to-fail reforms.

MEDIA RELEASE



IOSCO/MR/14/2019

Madrid, 4 June 2019

IOSCO examines regulatory-driven market fragmentation and considers how to enhance cross-border cooperation

The Board of the International Organization of Securities Commissions today published a report that examines instances of regulatory-driven fragmentation in wholesale securities and derivatives markets and considers what actions regulators can take to minimize its adverse effects.

The report, titled [Market Fragmentation and Cross-border Regulation](#), focuses on market fragmentation that arises as an unintended consequence of financial regulation. It provides examples of market fragmentation that IOSCO members consider to be significant and potentially harmful to the oversight and supervision of financial markets.

The report also examines the progress made by IOSCO members in using deference, and the regulatory mechanisms and tools associated with this concept (e.g., passporting, substituted compliance, recognition/equivalence). In doing so, the report follows up on a [2015 IOSCO report on cross-border regulation](#) and seeks to identify remaining challenges that can restrict cross-border activities.



Market Fragmentation -2

Paper on market fragmentation published by IIF and ISDA (January 2019)



INSTITUTE of
INTERNATIONAL FINANCE

ISDA

January 2019

January 2019

ADDRESSING MARKET FRAGMENTATION: THE NEED FOR ENHANCED GLOBAL REGULATORY COOPERATION

Financial markets are experiencing increasing levels of fragmentation, which undermine the progress that has been made in re-building resilience of the global financial system since the financial crisis and result in negative consequences for economic growth and job creation. Fragmentation resulting from excessive regulatory and supervisory divergence can trap capital, liquidity, and risk in local markets, create significant financial and operational inefficiencies resulting in additional unnecessary costs to end-users, and reduce the capacity of financial firms to serve both domestic and international customers. It is critical that market fragmentation be addressed to avoid these consequences and the correlated impact on the global financial system and the world economy.

As jurisdictions act unilaterally without proper coordination, it also can create level playing field problems, affect comparability across jurisdictions and even risk sensitivity in regulatory frameworks. It is, therefore, very welcome that the Financial Stability Board (FSB) has launched a new initiative to explore ways to address the risk of market fragmentation. This paper seeks to define the problem of market fragmentation and identify four specific categories of market fragmentation – Local Supervisory Measures and Ring-Fencing; Diverging Standards; Extraterritoriality; and, Obstacles to Cross-Border Cooperation and Information Sharing – with 12 specific current examples. It then concludes with a number of recommendations for the regulatory and supervisory community to consider that can help prevent market fragmentation and address and mitigate its negative impacts when it occurs.

1. INTRODUCTION

The Institute of International Finance (IIF) strongly supports the Financial Stability Board's (FSB) increasing focus on dynamic implementation and rigorous evaluation of the effects of the agreed G20 reforms.¹ Global standards underpin cross-border investment and economic activity by enabling financial institutions and markets to optimize allocation of the international finance flows that support a growing global economy and expanding workforce. Given the importance of these reforms, it is critical that there is a clearer understanding of how the final rules are being implemented, if there are adverse unintended consequences and, if so, what remedies can be introduced to minimize the unnecessary impact on economic growth and job creation.

Global coordination and consistent implementation have been long-standing G20 goals as evidenced in the G20 Leaders Statement at the 2009 Pittsburgh Summit, to a joint commitment to "take action at the national

Defining Market Fragmentation: The Financial Stability Board has identified the risk of market fragmentation as "a divergence in regulatory frameworks, which could impede the development and diffusion of beneficial innovations in financial services, and limit the effectiveness of efforts to promote financial stability."

Regulatory Driven Market Fragmentation

It has been 10 years since policy-makers came together through the Group of 20 (G-20) to agree a globally consistent regulatory agenda for derivatives. Since then, substantial progress has been made at the national level to implement rules on clearing, margin, trading, capital in line with the G-20 standards. Derivatives markets are safer, more transparent and more resilient as a result.

But while this progress is unmistakable, these regulatory reform efforts often differ in substance, scope and timing across jurisdictions. This has led to inefficiencies and higher costs for derivatives users, and ultimately results in increased risk.

This paper identifies examples of differences in how global standards have been implemented in individual jurisdictions, and recommends a series of steps that can be taken to address this issue. In particular, ISDA believes that global standard-setting bodies have a role to play in ensuring greater consistency in how rules are implemented, and in achieving a predictable, consistent and timely substituted compliance framework.

¹ FSB 2018, "FSB Chair's Letter to G20 Ministers and Governors March 2018" March 2018 and "FSB assesses financial vulnerabilities and takes stock of actions under its 2018 workplan" June 2018



1. Introduction
2. Evolution of FinTech
3. SDGs Finance
4. Market Fragmentation
- 5. Reforming Agenda for the FSA**
6. Conclusion

Upon its establishment in 1998, the JFSA changed its supervisory approaches as follows so as to deal with the non-performing loan(NPL) problems, one of the biggest issues in Japan at that time.

Primary issues

- ✓ Resolving non-performing loan problems
- ✓ Enforcing minimum standards to protect consumers



Supervisory approaches

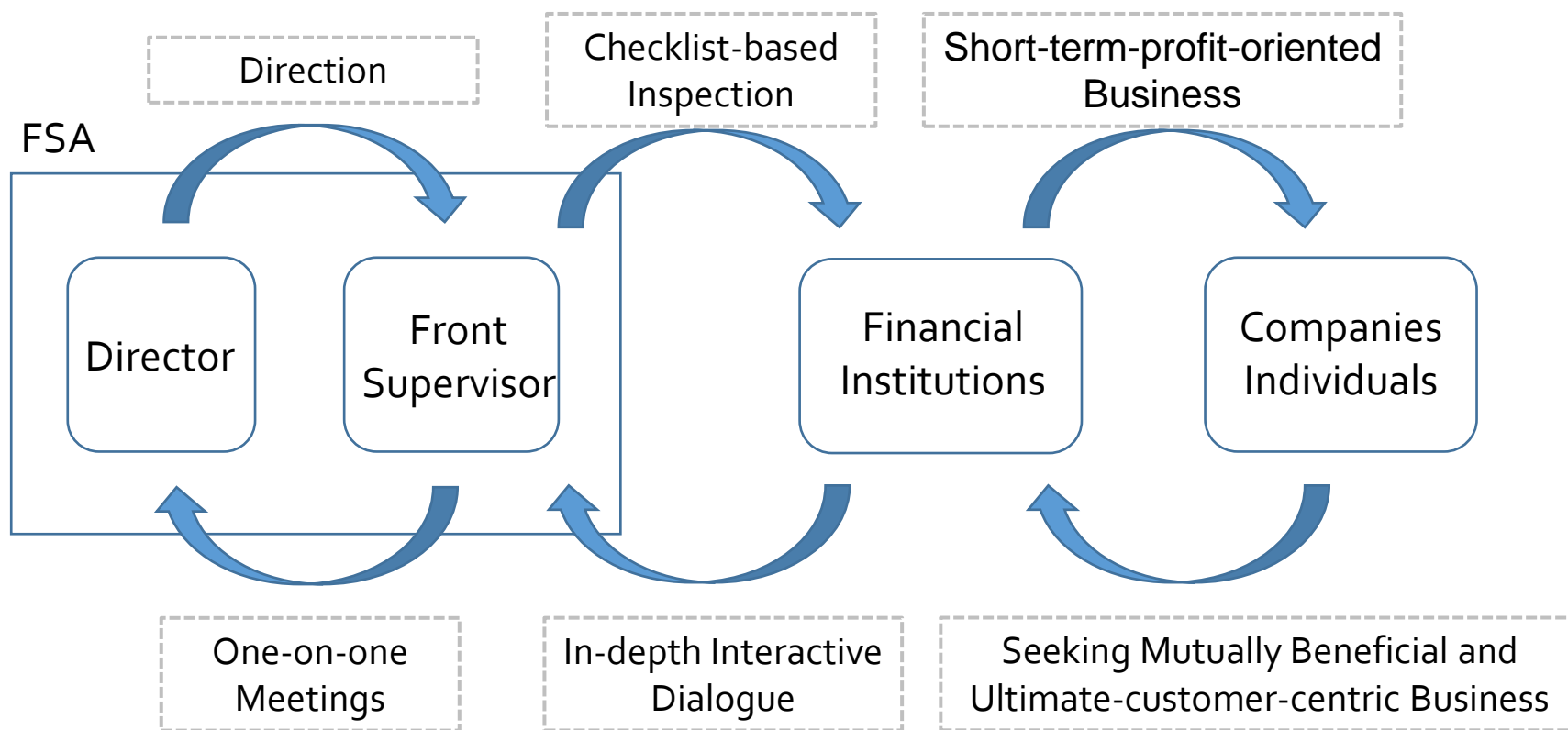
- Rule-focused, ex- post approach
- Loan by loan review
- Rigorous compliance check



Key principles in new approaches

- ✓ Redefining the regulatory goals: setting our ultimate goal as maximizing national welfare
- ✓ Shifting from rule-based compliance checks to balanced use of rules and principles
- ✓ Clarifying difference of financial institutions so that customers can choose financial services properly

To promote customer-centric business, not only financial institutions but also the FSA should act differently.



Shift from “Chain of Direction” to “Chain of Interactive Dialogue ”



- “Psychological Safety” inside the FSA to strengthening supervisory communication with financial institutions

- “Psychological Safety” brings benefits through
 - Encouraging speaking up
 - Enabling clarity of thoughts
 - Supporting productive conflict
 - Mitigating failure
 - Promotes innovation
 - Removing obstacles to pursuing goals
 - Increasing accountability

(Source) “Teaming” by Amy.C.Edmondson



Eight Behaviors of Effective Managers (Examples)

1. Be a coach

- Find out what matters to each of your team members.
- Agree on development priorities.
- Check in with them regularly.

2. Empower the team.

Do not micromanage

- Break obstacles down to help team work more effectively.

3. Show interest in your team member life

- Show your team you care.

4. Productive and goal oriented

- Keep your eye on the prize and focus on priority results and deliverables.

5. Very good communicator and listener

- Set the stage for open dialogue.

6. Helping team members in career development

- Talk about career development.
- Help your team grow skills they want to develop.

7. Have a clear vision and strategy

- Develop and share your vision for the team.

8. Technical skills in order to advice people

- Roll up your own sleeves to help your team get things done.



1. Introduction
2. Evolution of FinTech
3. SDGs Finance
4. Market Fragmentation
5. Reforming Agenda for the FSA
- 6. Conclusion**



Do you think it is going to pour?



Raising Awareness is the Key.



Thank you for your attention.